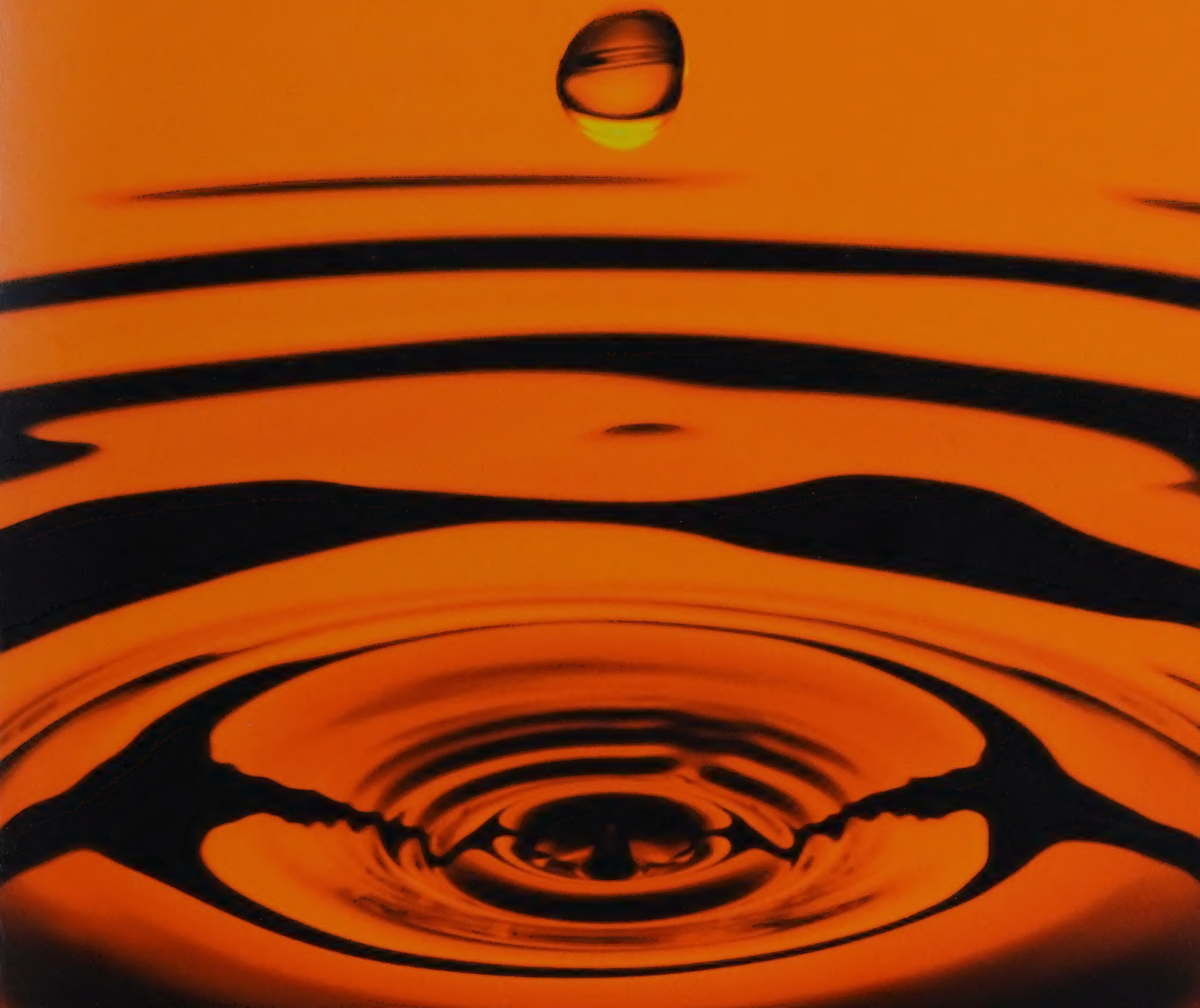


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**building
from a
strong
centre**





Corporate Profile

Penn West Petroleum Ltd. is a senior Canadian independent natural gas and oil producer that is sustaining profitable growth through a balanced strategy of cost-effective acquisitions and development of its diversified asset base. During 2000, Penn West's production averaged 83,500 boe (6:1) per day*, of which 61 percent was natural gas production.

At year-end 2000 Penn West's land base totalled 2.8 million prospective net acres of undeveloped land spread among five Core Areas that together offer a favourable mix of shallow to medium depth natural gas and crude oil prospects.

Penn West's current prospect inventory is sufficient to sustain internally generated growth for several years. Penn West's financial strength positions the company to participate in the continued consolidation of the oil and natural gas industry in the Western Canadian Sedimentary Basin.

Penn West is a publicly traded company listed on The Toronto Stock Exchange, under the trading symbol "PWT." As at December 31, 2000, there were 51.8 million common shares issued and outstanding.

Annual General Meeting

The annual general meeting of the shareholders of Penn West Petroleum Ltd. will be held in the Britannia Room, The Westin Hotel, Calgary, Alberta, on Wednesday, May 16, 2001 at 2:00 p.m.

Shareholders who are unable to attend are urged to complete, sign and mail their proxies to ensure their common shares will be voted at the meeting.

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* Note to Reader: Barrel-of-oil-equivalent (boe (6:1)) figures for the periods presented throughout this document are expressed at a conversion rate of 6 mcf of natural gas to 1 barrel of crude oil. Use of the 6:1 conversion rate reflects energy equivalence between natural gas and crude oil and is more reflective of the current price relationship than the 10:1 conversion that was used previously.

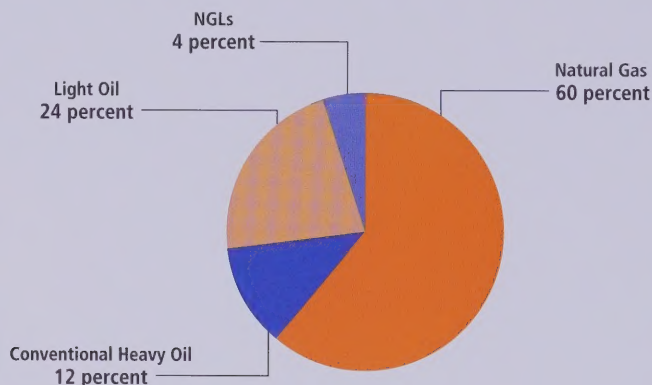
Financial Highlights

(\$ millions, except per share amounts and % change)

	2000	1999	% change
Gross revenues	952.2	414.6	130
Cash flow	560.0	230.3	143
Basic per share	10.86	4.89	122
Diluted per share	10.46	4.73	121
Net income	222.5	78.0	185
Basic per share	4.31	1.66	160
Diluted per share	4.16	1.60	160
Capital expenditures, net	541.9	760.0	(29)
Bank indebtedness	590.4	596.4	(1)
Shareholders' equity	854.6	635.3	35
Total assets	2,001.1	1,506.8	33
Common shares outstanding (millions)			
Weighted average			
Basic	51.59	47.11	10
Diluted	53.52	48.65	10

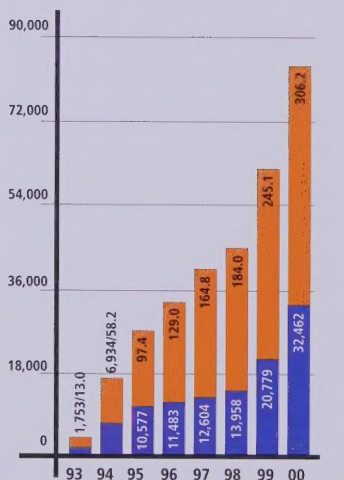
Operations Highlights

	2000	1999	% change
Production - annual average			
Oil and liquids (bbls/day)	32,462	20,779	56
Natural gas (mmcf/day)	306.2	245.1	25
Proven and probable reserves (year-end)			
Oil and liquids (mmbbls)	196.3	149.4	31
Natural gas (bcf)	1,079	994	9
Wells drilled			
Gross	405	210	93
Net	341	196	74
Undeveloped land (000s of acres)			
Gross	3,030	2,583	17
Net	2,763	2,280	21
Average working interest (%)	91	88	3



2000 PRODUCTION MIX (boe @ 6:1 at year end)

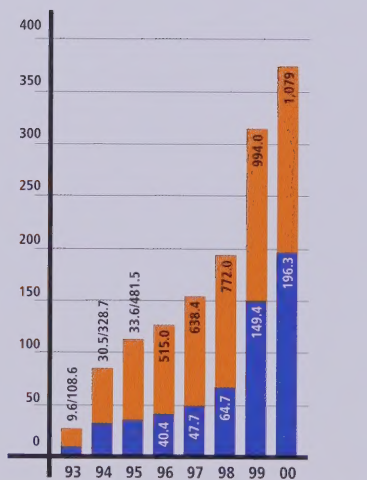
- Annual natural gas production increased by 25 percent year-over-year
- Annual liquids production increased by 56 percent year-over-year



AVERAGE DAILY PRODUCTION (Boe/day at 6:1)

■ Natural gas (mmcf/day)
■ Oil and liquids (bbls/day)

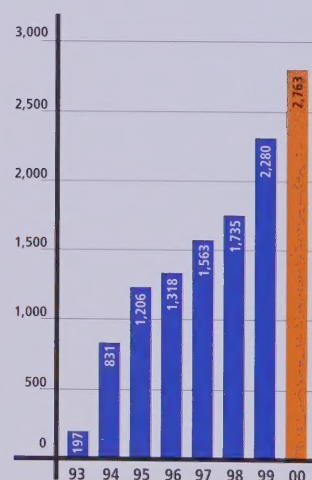
Production growth was driven by a 25 percent increase in natural gas production and a 56 percent increase in oil and liquids production.



RESERVES: PROVEN & PROBABLE (Million boe)

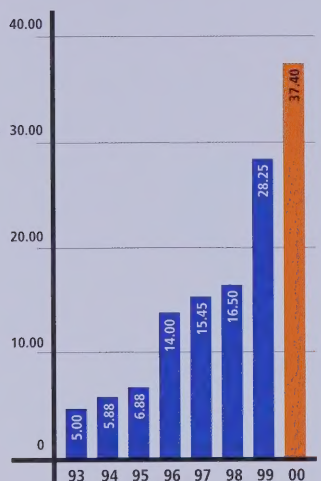
■ Natural gas (bcf)
■ Oil and liquids (mmbbls)

Once again, Penn West increased both its oil and natural gas reserves while maintaining a very competitive finding and development cost structure.



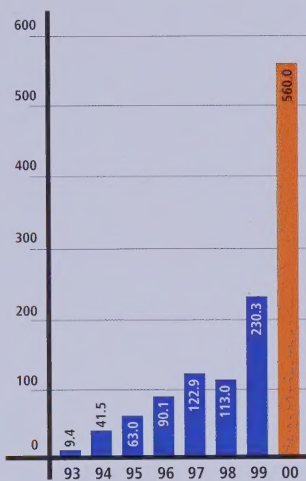
UNDEVELOPED LAND (Thousands of net acres)

Our undeveloped land base increased by over 20 percent for the year. Approximately 44 percent of this undeveloped land is located in our natural gas prone Northern Area.



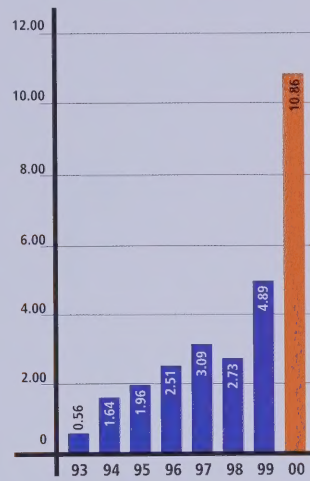
SHARE PRICE AT YEAR-END
(\$ per share)

The financial markets have recognized Penn West's performance over the past several years, increasing the Company's share price more than seven fold since 1993.



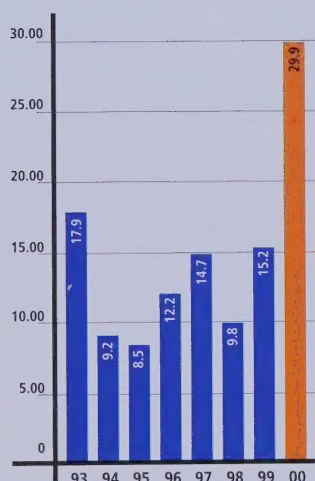
CASH FLOW
(\$ millions)

For the second consecutive year, cash flow has more than doubled year-over-year. The growth in cash flow was driven by increasing production rates and strengthening commodity prices for both crude oil and natural gas.



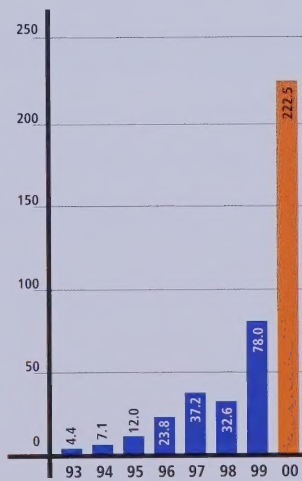
CASH FLOW PER SHARE
(\$ basic)

Cash flow per share has increased at an annual average rate in excess of 50 percent since 1993.



AFTER TAX RETURN ON EQUITY
(%)

We achieved an after tax return on equity of almost 30 percent in 2000, and we are positioned for continuing strong performance in 2001.



NET INCOME
(\$ millions)

Net income has been positive in every quarter since the Company was revitalized with new management in late 1992. Net income has more than doubled in each of the past two years.



NET INCOME PER SHARE
(\$ basic)

Net income per share was \$4.31 in 2000. Penn West was trading at a price to earnings ratio of 8.7 times at year end.

building from a strong centre

1

**large
undeveloped
land base**

2

**balanced
inventory of
prospects**

3

**rigorous
cost control**

4

**disciplined
business
approach**



We are pleased to report that Penn West generated tremendous operating and financial results in 2000. Production, reserves, cash flow and net income all set new records. Penn West's cash flow exceeded our capital needs in 2000 despite a record program of internally generated development and exploration. Penn West continued to maintain tight control over finding and development costs. Very strong product prices, especially for our growing natural gas and high-quality light oil production, had a favourable impact on netbacks.

Penn West's results in 2000 bring the Company's track record of profitable growth to eight consecutive years, starting in 1993 when existing management restructured the Company. Equally important, Penn West's asset base, mix of properties, inventory of prospects and team of dedicated employees together form a platform for growth that can be sustained over the medium to long term. As this is written, we are well into another record drilling program to continue growing production through the drill bit, and we have unprecedented financial strength that gives us the flexibility to respond to opportunities for cost effective acquisitions.

Penn West is positioned for long-term growth. In addition to achieving strong growth through the drill bit in 2000, we completed \$206 million of net property acquisitions. We acquired significant new acreage in the natural gas prone lands of our

Northern Area, and also in the Central Area where we will seek medium-depth oil and natural gas reserves. We have increased our geophysical activities and added to our databases, including seismic interpretations and regional mapping to identify new prospects. We have also increased our activities to apply enhanced oil recovery in many existing producing properties in the Central and Plains Areas.

We have a diversified and balanced asset base, including rapidly growing natural gas from the Northern Area, long life and high-quality light oil from the Central Area, and a combination of shallow natural gas and conventional heavy oil from the Plains Area. We will continue to position the Company for long-term growth by strengthening our land base and increasing our prospect inventory. Our goal is to maintain a prospect inventory representing in excess of five years' worth of development work.

Commodity prices in 2000 were strong. Penn West has made control over unit netbacks a key priority, a philosophy that is crucial during times of low prices, but which for us also extends to periods of strong commodity prices. There is an important relationship between production volumes, control over key benchmarks and ratios, and ultimate financial results. With Penn West's diverse asset base and broad prospect inventory, the Company achieved strong gains in production in 2000.

Here is how Penn West performed in 2000:

Internally generated growth in volumes

- Penn West exited the year with production at 86,600 boe (6:1) per day, an increase of 15 percent over year-end 1999.
- Natural gas production averaged 306 mmcf per day in 2000, an increase of 25 percent over 1999.
- Combined production averaged 83,500 boe (6:1) per day for the year, an increase of 35 percent over 1999.
- Penn West drilled 341 net wells in 2000. Proven reserve additions totaled 52.2 million barrels of crude oil and NGLs, and 167 bcf of natural gas. Last year, Penn West's proven plus probable natural gas reserves exceeded one tcf for the first time.

Control over key benchmarks

- Finding and development costs during 2000 averaged \$5.91 per boe (6:1) proven plus probable (\$6.76 per boe (6:1) proven only); Penn West's five-year average finding and development cost is \$5.11 per boe (6:1) proven plus probable (\$5.68 per boe (6:1) proven only).
- Operating costs averaged \$4.28 per boe (6:1) in 2000.
- Penn West attained an average netback of \$20.09 per boe (6:1) in 2000.
- Finding and development costs for proven reserves represented only 34 percent of operating netbacks in 2000.

Record financial results

- Cash flow was \$560 million in 2000, an increase of 143 percent from \$230 million in 1999. Cash flow per share was \$10.86 in 2000, up by 122 percent from \$4.89 per share in 1999.
- Earnings increased by 185 percent to \$222.5 million in 2000 from \$78.0 million in 1999. Earnings per share grew to \$4.31, an increase of 160 percent from \$1.66 per share in 1999.
- Penn West generated a return on equity of 29.9 percent in 2000, a new record.
- Penn West's balance sheet strengthened in 2000. Cash flow exceeded capital requirements, allowing Penn West to finance growth from internally generated cash flow. At year-end 2000, Penn West's debt was less than 1.1 times the year's cash flow, while our cash flow to interest coverage was 14 times.

Penn West's management team operates according to a business plan developed to deliver sustained growth through all phases of the commodity price cycle.

Penn West's growth has been driven by a combination of strategic acquisitions and full-cycle development of internally generated prospects. Penn West's capital spending has varied with the scale of our strategic acquisitions. Development and exploration spending has risen steadily as Penn West has grown, supported by our growing land base, reserves, production and cash flow.

We think there are many remaining opportunities throughout the Western Canada Sedimentary Basin that can continue to drive the growth of the Company. There is consolidation going on in the Canadian industry. This will provide important opportunities for financially strong companies. The key is to assemble sizable core positions where an operator can apply efficiencies—optimize production, consolidate infrastructure, reduce unit costs—as well as explore for new pools of oil and natural gas. This is why the Basin is evolving into an area dominated by a number of strong independents.

2 0 0 0 P r o g r a m

In 2000, Penn West met with operational success in each of our Core Areas. Our \$542 million capital program focused in particular on our Northern and Central Areas.

Penn West's Northern Area is a large, under-explored region that is highly prospective for shallow and medium-depth natural gas. Penn West's properties are a mix of grass-roots

exploration and development plays, and since 1995 Penn West's natural gas production has grown five-fold. Last year we conducted a record 145 well drilling program in the Northern Area, increasing natural gas production by 50 percent. The Northern Area now produces almost one third of Penn West's natural gas. Penn West is a seasoned operator in this remote, cold climate region and has a level of experience that provides a competitive advantage.

In 2000, Penn West's 100 percent owned Wildboy property entered its third phase of development, with initial production passing 50 million cubic feet per day of high netback, low operating cost natural gas. Penn West is actively exploring at Wildboy while continuing development of the area. Development at Mega, Lennard, Haig and Sousa also yielded strong gains in production and reserves. Penn West holds 1.2 million acres of undeveloped land in our Northern Area, and this land is expected to support an active drilling program in future years.

The Central Area has been the focus of a series of strategic acquisitions starting in the mid-90s. The Pembina field holds immense reserves of high quality, long life, low decline light oil, and is also a significant natural gas producing area. Discovered in the late 1950s and developed in the 60s, 70s and 80s, this is the largest conventional light oil field in Canada. The oil production from this area commands among the highest prices and is subject to some of the lowest royalties in Western Canada.

Penn West saw a major opportunity in the Cardium oil properties as the large multi-national producers gradually exited the region. The potential for adding value here goes beyond consolidation and unit cost reduction, although these are important components of the equation. Recovery rates for the nearly eight billion barrels of original oil-in-place remain low, averaging about 15 percent. Enhancement of recovery rates through secondary recovery offers the potential to add millions of barrels in incremental reserves at low cost. The prerequisite to such a program, however, is attaining regional dominance.

In 1999, Penn West completed a \$513 million acquisition of producing properties, infrastructure and land in this region. Together with previous purchases and further acquisitions in 2000 totaling \$130 million, Penn West has become the dominant operator in the region. Last year, Penn West began to tap the enormous potential in the area, drilling 35 oil and natural gas wells and launching waterfloods at several properties. The Central Area now produces 62 percent of Penn West's liquids and one-third of our natural gas.

Sustaining growth

Penn West's management team has been planning for the future ever since 1992 when the company was revitalized with new management and a new business plan. Penn West has grown at double digit rates every year through this period, and a key component of our business plan has always been to maintain a continually expanding

base of undeveloped land and an expanding inventory of drilling prospects. Our Core Areas were selected and developed to provide a range of opportunities and a diversified mix of products. This business plan has served the Company well, delivering year-over-year growth.

Penn West continues to focus on cost control as an important element of our business plan. One significant change in industry over the past year has been an increase in the cost of electricity to run field equipment such as pump jacks and water injection pumps. Although electricity prices have increased for all industrial power users within Alberta, Penn West has worked proactively to reduce the impact of increased power costs on our production operating costs. During 2000, we participated in the Power Pool of Alberta's power auction to hedge approximately 50 percent of the Company's electrical needs for a 3 year period starting in 2001 and ending in 2003. We have also initiated two separate power generation projects at our field sites to generate a portion of our own electricity. One of these projects will use solution gas that is currently being flared, while the other project will incorporate waste heat recovery to reduce plant fuel consumption. These benefits make electricity generation an attractive opportunity. Penn West is also evaluating other sites for electrical generation opportunities. By continuing to focus on cost control in electricity and in other areas, we will continue to maximize returns to our shareholders.

Through our disciplined adherence to each element in our business plan, Penn West is well positioned to generate further growth. Penn West's existing land base of 2.8 million net acres is large enough to support significant future drilling programs.

2 0 0 1 O u t l o o k

For 2001, Penn West has budgeted capital spending of between \$500 million and \$600 million. This will fund drilling of 480 net wells, of which approximately 60 percent will be natural gas wells. This program is aimed at increasing average 2001 production to between 91,000 and 97,000 boe (6:1) per day, an internally generated increase in volumes of between 9 and 16 percent over 2000. Our 2001 production growth will occur mostly through the drill bit. Given the strength of Penn West's balance sheet, the potential remains for additional upside should we find opportunities for further cost effective acquisitions.

We are basing our plans on an average 2001 crude oil price of US\$26.00 per barrel of W.T.I. and \$6.35 per thousand cubic feet of Alberta plantgate natural gas. At these prices, Penn West should generate cash flow of between \$660 and

\$720 million in 2001, approximately \$12.50 to \$13.70 per share. That will once again exceed our capital requirements for internally generated growth, leaving Penn West strongly positioned to take advantage of any additional opportunities for strategic acquisitions.

We would like to extend our thanks to the Penn West team of employees and managers for their continued enthusiasm, dedication and focus as Penn West continues to grow. Our thanks also go out to Penn West's Board of Directors.

On behalf of the Board of Directors,

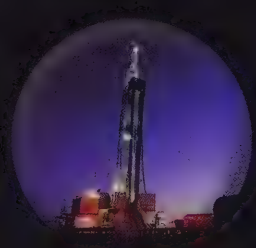


N. Murray Edwards
Chairman

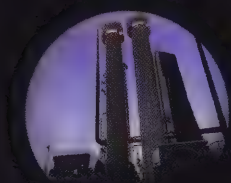


William E. Andrew
President

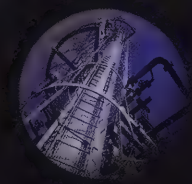
Calgary, Alberta
March 20, 2001



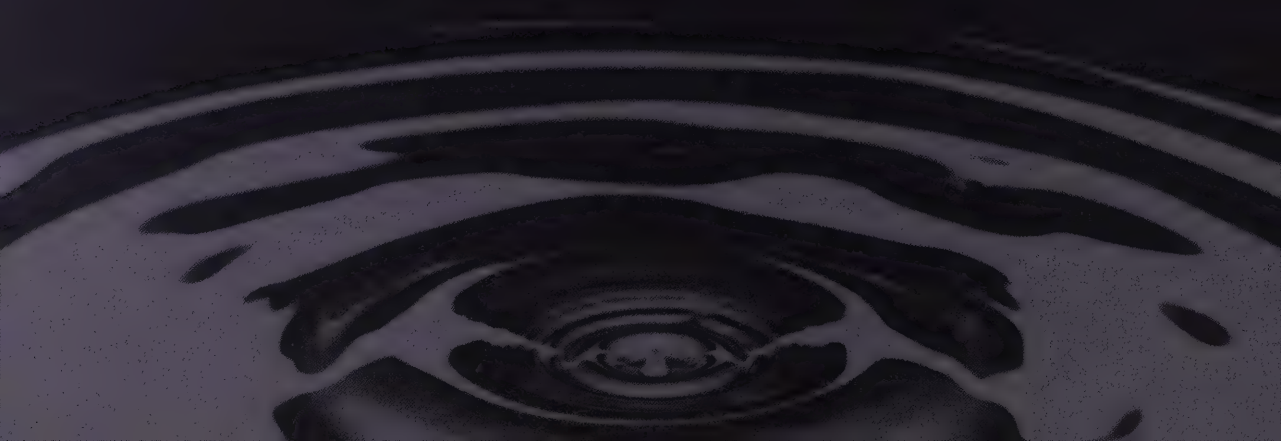
exploration



development



operations



1

Is Penn West positioned to sustain its growth over the medium to long-term?

Yes. Penn West has an extensive land base organized into Core Areas that offer a diversified product mix and a range of development opportunities, including both natural gas and premium priced light oil. We currently have a proven reserve-life index of 10 years and enough undeveloped land and drilling prospects to support an active drilling program over the next several years. Each year, we continue to augment our undeveloped land base. Penn West is generating the cash flow needed to fund internal growth of more than 10 percent per year. We also have the financial strength to continue to make strategic acquisitions.

2

What is the long-term significance of Penn West's series of acquisitions in the Central Area in the late 90s?

Our Central Area contains immense reserves of high quality, long life, high-netback light oil. It's also a very significant region for medium depth, multi-zone natural gas. The major producers that historically developed this region have gradually been exiting. Yet recovery rates in this area to date have averaged only 15 percent. These two trends offered huge potential for adding reserves and production through tighter well spacing and secondary recovery techniques. The key requirement was investing the time and capital needed to acquire a dominant land and infrastructure position. After five years, Penn West is now at that point. We are the largest player in this region. We have the potential to add very significant incremental reserves from this area at reasonable costs.

3

Is Penn West considering investing in frontier gas exploration, oilsands, offshore or international projects?

Penn West believes that the Western Canadian Sedimentary Basin offers significant opportunities for long-term growth. There are large areas of under-explored lands, and there is ongoing industry consolidation, creating opportunities for well-financed, large independents such as Penn West to grow profitably. We do not wish to divert our focus from the basin we understand best. At the same time, we are not averse to entering new areas of operations. All of our current Core Areas were new to us at some point. Only eight years ago, Penn West was almost exclusively a Plains Area producer. Today in our Northern Area, we are within a few miles of the Northwest Territories. As the focus of natural gas exploration moves further northward, we will be there as well. When the time is right, Penn West will broaden its horizons even further.

Track Record and Strategy for Continued Growth

Penn West used its strong operating and financial position and the favourable commodity price environment of 2000 to conduct a record development and exploration program on its large and diverse base of properties, complemented by a series of property acquisitions aimed at consolidating key operating areas. The Company's \$542 million capital program succeeded in growing our production and reserves at reasonable cost. Penn West's program had four main objectives:

- Continue to build natural gas volumes through the drill bit at our key, high working interest Northern Area properties;
- Begin to develop the large scale potential for growing production and reserves in our Central Area, where Penn West is now the dominant producer;
- Build on previous exploration successes in our Plains Area by exploiting the potential for low cost shallow natural gas and conventional heavy oil;
- Continue to position Penn West to sustain long-term growth by building on our base of undeveloped land, improving our geophysical database, maintaining a

growing inventory of diversified drilling prospects, and seeking efficiencies through consolidation and optimization wherever possible.

This program is consistent with Penn West's long-term business plan. The plan is aimed at positioning Penn West to sustain its year-over-year growth over the long term. The key drivers are undeveloped land, drillable prospects, reserves and production. Each of these key elements has been successfully employed and expanded in each of the past eight years. Today, Penn West's assets represent a powerful platform that can sustain the Company's growth at significant rates for years to come.

To help position the Company for future growth, Penn West continued to actively bid on prospective undeveloped lands in our Core Areas. During 2000, Penn West increased its land position by nearly 500,000 net acres, or 21 percent, exiting the year with nearly 2.8 million net acres of undeveloped land.

1

Undeveloped Land Base

(thousands of acres)

	2000	1999	1998
Gross acres	3,030	2,583	2,027
Net acres	2,763	2,280	1,735
Average working interest (%)	91	88	86

Penn West's key operational results for 2000, discussed in greater detail in the sections that follow and in the Core Areas Discussion, were as follows:

- Drilled 341 net wells, a Company record;
- Increased production to a daily average of 83,500 boe (6:1) per day, of which 61 percent was natural gas production;
- Increased proven and probable reserves by 19 percent over 1999, to a year-end 2000 total of 376 million boe (6:1), of which more than 1 trillion cubic feet was natural gas;
- Maintained careful control over unit operating and finding and development costs; and
- Generated a recycle ratio of 3.0 on proven reserves, while proven finding and development costs as a percentage of operating netbacks declined to 34 percent.

These strong results, together with Penn West's sound business plan, position the Company to sustain its growth.

2000 Capital Program

Penn West invested a total of \$542 million in 2000. Of this amount, 38 percent was committed to a series of acquisitions of producing properties located primarily in our Central and Plains Areas. These acquisitions consolidated our area holdings, and will help the Company increase operating efficiencies and maximize the exploitation of opportunities to add production and reserves.

The balance of \$336 million was committed to a record exploration and development program. The budget funded drilling of 341 net wells. More than 40 percent of this total drilling program was targeted at shallow to medium depth natural gas in our Northern Area.

The table below details Penn West's capital expenditures in 2000.

2 Capital Expenditures

(\$ millions, net)

	2000	1999	1998
Land acquisition and retention	\$ 27.3	\$ 23.8	\$ 13.9
Net property acquisitions	206.0	568.6	99.1
Drilling and completions	149.8	89.2	64.7
Facilities and well equipping	144.5	67.2	60.6
Geological and geophysical	11.5	9.7	10.3
Other	2.8	1.5	0.4
Capital expenditures	\$ 541.9	\$ 760.0	\$ 249.0

NORTHERN AREA

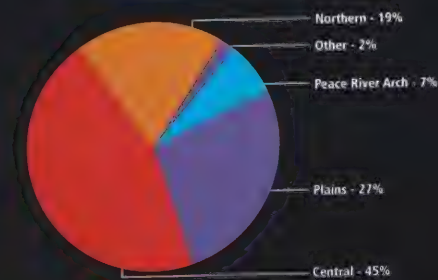
The Northern Area is Penn West's largest source of grass roots natural gas production growth. Penn West's 2000 exit rate of almost 100 mmcf per day, represents an increase of more than 50 percent over year end 1999. In only seven exploration seasons in the Northern Area, Penn West has created the equivalent of an intermediate sized natural gas producer, essentially out of raw land and almost entirely through the drill bit. In 2000 Penn West drilled 145 net wells in the Northern Area, which now produces one third of Penn West's natural gas and about 19 percent of the Company's overall volumes.

The Northern Area is an under-explored region offering many opportunities for low risk, shallow and medium depth natural gas development. Penn West has two major operating areas in this Core Area: Wildboy, a medium depth Penn West discovery and a cluster of shallow depth properties at Haig, Sousa, Lennard and Mega that are collectively known as Boyer. These projects are discussed in more detail in the following pages.

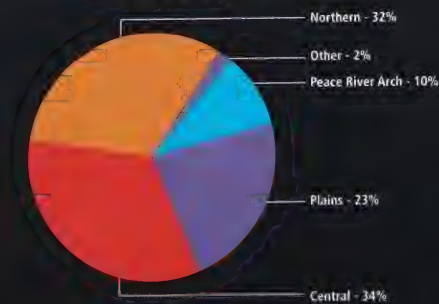
Solid Platform for Growth in Natural Gas Production

With 1.2 million acres of undeveloped land, Penn West is strongly positioned to continue to build its natural gas volumes out of the Northern Area. Using conservative ratios of well spacing and prospect success, the existing land base represents a potential inventory of more than 1,000 drilling locations. In 2001, the Company will drill approximately 150 net wells in the Northern Area, continuing to build production volumes and exploring for new pools, while adding further to our land base.

PRODUCTION BY CORE AREA



NATURAL GAS PRODUCTION BY CORE AREA



PEACE RIVER ARCH AREA

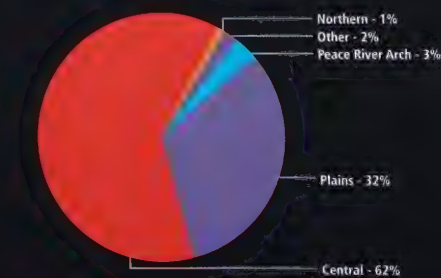
At year-end 2000, Penn West produced about 6,000 boe (6:1) per day in the Peace River Arch Area, a region straddling the Alberta-B.C. border that is prospective for both shallow and medium depth natural gas and crude oil. The region contains the terminus for the new Alliance Pipeline. This high pressure, large diameter natural gas export pipeline entered service in late 2000, creating a positive impact on netbacks for producers in the region and throughout Alberta.

The Peace River Arch currently provides 7 percent of Penn West's production. During 2000 Penn West drilled a total of 13 net wells in the region, including wells at Silver, Firebird and Umbach.

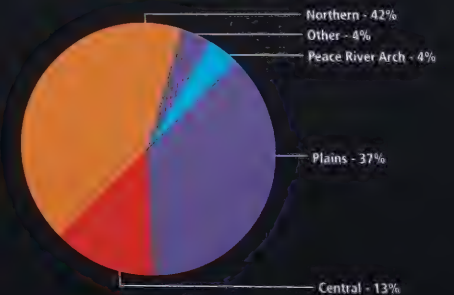
Multi-zone Potential

Penn West holds 139,000 acres of undeveloped land in its Peace River Area. The region offers a mix of exploration potential and development opportunities. In 2001 Penn West plans to drill 10 to 15 wells, including exploratory and development wells at Umbach, Boundary Lake, Wilder and Progress.

CRUDE OIL AND NGL PRODUCTION BY CORE AREA

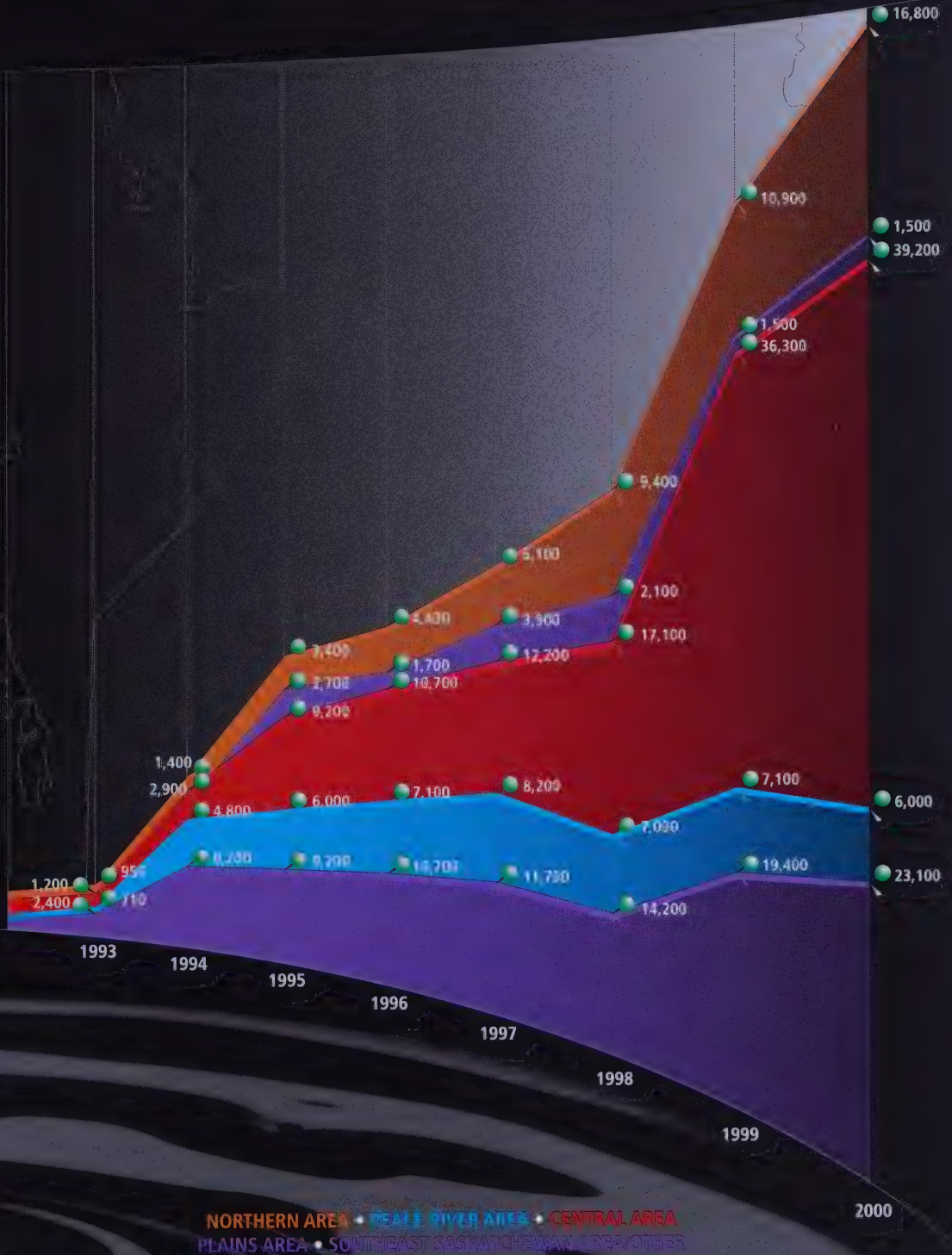


DRILLING BY CORE AREA



production by core area

Total (boe/day at year-end at 6:1 conversion factor)



overview of core areas



CENTRAL AREA

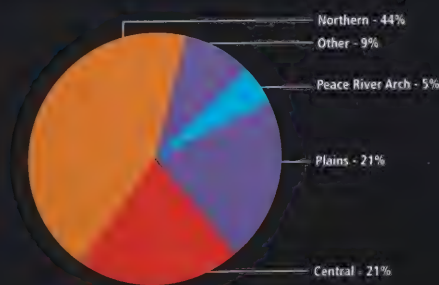
The Central Area forms the backbone of Penn West's crude oil and liquids production, and is also our largest natural gas producing region. At year-end 2000, Penn West was producing over 39,000 boe (6:1) per day in our Central Area. The region is characterized by large, long life pools of Cardium light oil, a high-quality product that commands premium prices while incurring low royalties. It is also characterized by medium depth, multi-zone natural gas pools that are served by a number of Penn West owned natural gas plants, particularly our strategic facility at Minnehik-Buck Lake.

Over the past six years Penn West has conducted a series of acquisitions to build an increasingly dominant position in our Central Area. This region has been drilled, developed and produced over more than four decades. However, ownership in the area had been fragmented. Penn West saw significant opportunities for consolidation, followed by development focused on optimization and secondary recovery. These are low risk programs that can add reserves and production at low cost. Since 1994 Penn West has grown its production from the region more than twelve-fold. Our Central Area program is discussed in more detail in the following pages.

A Large Resource Base with Impressive Future Development Potential

The full effects of Penn West's strategy for the Central Area will begin to be realized in 2001 and beyond. Our position will allow us to conduct a growing program of optimization, secondary recovery and development drilling. The combined potential for tighter well spacing on producing lands and 576,000 acres of undeveloped land represents a prospect inventory of at least 1,200 further drilling locations. Penn West plans to drill at least 100 wells in 2001, more than double the number drilled last year.

UNDEVELOPED LAND BY CORE AREA



CENTRAL AREA PRODUCTION GROWTH
(boe/day at 6:1)



PLAINS AREA

The Plains Area in east-central Alberta and west-central Saskatchewan is an active development area for Penn West. Penn West's properties were augmented through a strategic acquisition in 1999 and through further consolidation in 2000. These properties provide a strong base for low risk, low cost exploitation of conventional heavy oil and shallow gas drilling. Penn West drilled 130 wells in this region in 2000, attaining a very high drilling success rate. At year-end 2000, production totaled 23,100 boe (6:1) per day. This was up by 19 percent over year-end 1999, and represented 27 percent of Penn West's total volumes.

Penn West's principal Plains Area properties are Wainwright, Esther and Hoosier. They offer strong potential for both low risk exploration on undeveloped lands and optimization of oil recovery through waterfloods and tighter well spacing. These characteristics allow Penn West to increase production in short time frames and at low cost. Penn West's Sparky heavy oil at Wainwright, which averages 22° API, is very amenable to waterflood. Recovery rates of the 14-19° oil at Esther and Hoosier can be increased through horizontal drilling and waterflood, allowing the addition of new reserves at low incremental costs. The area is also important for natural gas production. Using today's drilling technology, shallow gas wells can be drilled at a low cost. The natural gas is sweet and dry, reducing field infrastructure requirements. At current natural gas prices, cost-recovery can be achieved very quickly.

Extensive Inventory of Low Risk Prospects

The combination of continued opportunities for optimization on Penn West's producing properties, and our 570,000 acres of undeveloped land, will generate thousands of drilling locations in our Plains Area over many years to come. Penn West has built up its inventory of 3-D seismic to enable accurate well placement, achieving very high drilling success rates. Penn West plans to drill at least 180 wells in the Plains Area in 2001.

Core Areas
(2000 exit volumes)

Core Area	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Total (boe/day)	Oil & Liquids %	Natural Gas %	Boe %
Northern	1,229,000	400	98	16,800	1%	32%	19%
Peace River Arch	139,000	900	31	6,000	3%	10%	7%
Central	576,000	21,700	105	39,200	62%	34%	45%
Plains	568,000	11,300	71	23,100	32%	23%	27%
S.E. Sask/Other	251,000	700	5	1,500	2%	2%	2%
Total all properties	2,763,000	35,000	310	86,600	100%	100%	100%

The Pembina Cardium oil pool in our Central Area holds an immense resource base that initially totaled 7.8 billion barrels of oil in place and 10 trillion cubic feet of natural gas. The Pembina Cardium oil pool is the region's main producing formation and is the largest conventional light oil pool in Canada. Penn West has been active in this area since the mid-90s, when we acquired oil and natural gas producing lands and a controlling interest in the Minnehik-Buck Lake processing plant.

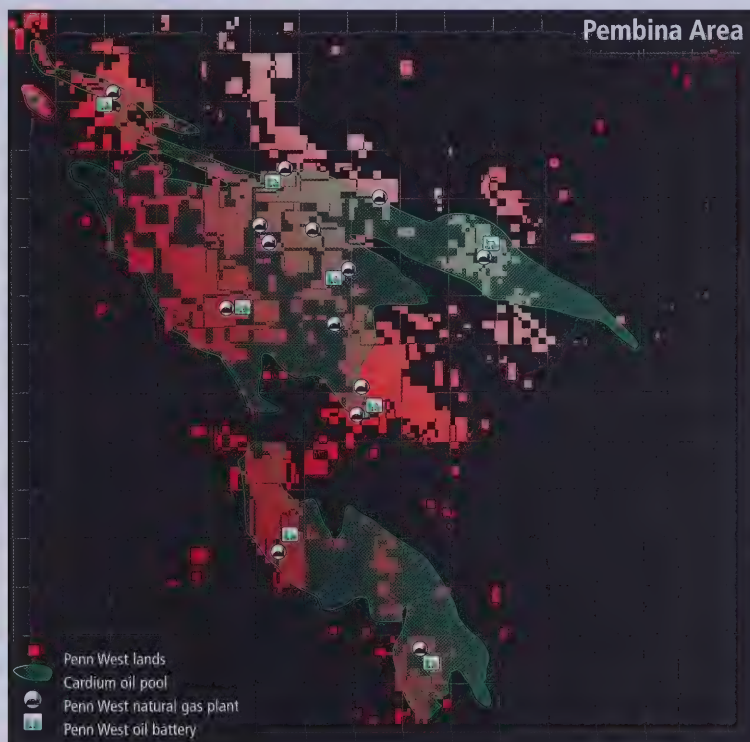
Since then, Penn West has significantly increased its position. The gradual exit of the multi-national producers from this area offered a major opportunity for a producer that was financially strong and operationally committed. While there is significant multi-zone potential for undiscovered natural gas and oil, the principal opportunity lies in boosting recovery rates of known oil resources. Recovery rates have to date averaged only 15 percent. A recovery enhancement of only two percent represents incremental reserves for the pool of approximately 160 million barrels of oil.

These reserves are amenable to proven secondary recovery techniques such as waterflood. The fragmented ownership prevalent in the past, however, meant that such programs risked "pushing" reserves onto a competitor's property. Following a series of strategic acquisitions, the largest of which was the purchase

in 1999 of BP-Amoco's combined assets in the region, Penn West has become the area's dominant player exercising control over the Cardium pool lands and the area's infrastructure.

Penn West's strategic goal is to apply optimization techniques, including reduced well spacing, waterfloods and other methods, to capture reserves that would otherwise not be recovered. Engineering studies suggest that recovery rates could be boosted to as high as 25 percent. This would represent very large incremental reserves additions.

Although this region has produced for decades, there is significant potential to create new value. The Cardium oil is premium grade, averaging 39° API, commanding close to the Edmonton par price while incurring low royalties. Operating costs under secondary recovery are somewhat higher than average. However, exploration risk is very low and a widespread Penn West infrastructure means that new reserves can be brought on-stream at low cost. These factors together allow an efficient producer to generate high netbacks.



The Central Area is also Penn West's largest region for natural gas production. There is continued potential for multi-zone natural gas development in the Mississippian and Cretaceous age sediments. Options include infill drilling, recompletions, optimization of facilities and horizontal drilling.

Last year, Penn West began to tap the potential of the area, drilling 35 wells and making further acquisitions to continue consolidating our position. Production at year-end stood at 105 mmcf per day of natural gas and 21,700 bbls per day of crude oil and liquids.

The combination of infill drilling opportunities, optimization and more than half a million acres of undeveloped land offers Penn West many years worth of development, including the potential for 1,200 additional drilling locations. In 2001, Penn West plans to drill more than 100 wells in the Central Area. Over the medium term, there will also be further potential for industry consolidation.

Over the past seven drilling seasons Penn West has progressed from a newcomer in the northernmost reaches of northwest Alberta and northeast B.C. into a highly experienced operator accustomed to seasonal operations in a cold climate environment. This constitutes a major strength as the focus of Western Canada's natural gas activity shifts northward. Our 2000 drilling program of 145 net wells drove production to almost 100 mmcf per day at year-end, representing one-third of Penn West's total natural gas production.

Initial development focused on the Devonian Jean Marie formation at the 100 percent Penn West owned Wildboy play, where Penn West constructed a gathering system, processing plant and sales pipeline. Development has since expanded in phases. In 2000, Penn West drilled 31 wells at Wildboy, bringing peak production to more than 50 mmcf per day. During this past winter season, Penn West continued exploratory drilling of its undeveloped lands surrounding Wildboy, which total almost 400,000 net acres.

Penn West was also very active in the Boyer area in 2000, with drilling of more than 110 net wells. The Mega property was a new Penn West production area. In 2000, a program of nine vertical wells brought commercial production in at more than 20 mmcf per day. Mega produces sweet, dry natural gas, which simplifies processing and holds operating costs to a minimum.

Penn West plans to drill 150 net wells in the Northern Area in 2001, including 40 wells at Wildboy. Penn West's budget will continue to emphasize exploratory drilling that will set up development drilling in future years.

With Penn West's control of 1.2 million net acres of undeveloped lands, the Northern Area holds tremendous potential for the medium to longer term. This amount of land, at a ratio of prospect success and well spacing typical for this region, should yield numerous further drillable prospects. While industry activity in the region is increasing, there are also further Crown lands available for posting.

Production, Drilling and Reserves

Penn West's 2000 capital program succeeded in its objectives of increasing Penn West's reserves and production in a cost-effective manner. Penn West drilled 341 net wells in 2000, an increase of 74 percent over the year before. Of the total wells drilled, 60 percent were natural gas wells and 27 percent were oil wells, with an overall success rate of 87 percent.

Approximately two-thirds of the natural gas wells were drilled in our Northern Area. Development of our medium depth play at Wildboy continued, as did exploratory work on our surrounding lands. Penn West drilled more than 110 shallow depth wells at our cluster of properties in the Boyer area which includes Sousa, Mega, Haig and Lennard. Additionally, Penn West drilled numerous low cost shallow natural gas wells in our Plains Area.

Oil drilling was two pronged. Penn West began to exploit its position in the Central Area. The Company also continued to drill low cost wells at our conventional heavy oil properties in our Plains Area.

Penn West's record drilling program, together with a series of property acquisitions in our Plains and Central areas, elevated the Company's daily average production from 61,600 boe (6:1) per day in 1999 to 83,500 boe (6:1) per day in 2000, an increase of 35 percent. Of this total, 32,500 bbls per day was crude oil and liquids production and 306 mmcf per day was natural gas production. In 2000, Penn West's production was weighted 61 percent towards natural gas.

Independent third party petroleum engineers evaluated Penn West's reserves. The Company's major properties, representing approximately 90 percent of total proven plus probable reserves, were evaluated by either McDaniel and Associates Consultants Ltd. or by Gilbert Lausten Jung Associates Ltd. The balance of the Company's reserves, representing approximately 10 percent of proven plus probable reserves, were evaluated by Penn West in conjunction with independent engineers R. H. Rose and Associates Petroleum Consultants.

3 Drilling Results

	2000		1999		1998	
	Gross	Net	Gross	Net	Gross	Net
Natural gas	228	203	139	128	105	95
Oil	129	94	44	42	23	21
Dry	48	44	27	26	28	27
Total	405	341	210	196	156	143
Average working interest (%)		84		93		92
Success rate (%)		87		87		81

Penn West also succeeded in adding significant new reserves at reasonable costs. Proven plus probable reserves at year-end 2000 stood at 376 million boe (6:1), an increase of 19 percent from 315 million boe (6:1) in 1999. Of this amount, crude oil and liquids reserves totaled 196 million barrels and natural gas reserves totaled 1,079 bcf.

The majority of the new reserves were added through internally generated development. Penn West's combination of successful drilling and cost-effective acquisitions replaced 301 percent of the year's production. This level of performance, year after year, continually repositions Penn West to sustain its growth in production volumes over the longer term. At year-end 2000, Penn West's proven plus probable reserve life index stood at 11.9 years.

Cost Control – Finding and Development Costs, Operating Costs, Recycle Ratio

Maintaining control over key cost ratios has always been a foremost priority for Penn West,

both to sustain Penn West's ability to grow and to deliver value to shareholders.

Operating costs are an important component in determining netbacks. Penn West's growing Northern Area natural gas production incurs low operating costs, while our continued growth in the Plains and Central Areas offers opportunities to increase efficiencies in oil production, through increased utilization of infrastructure or through field consolidation. In 2000, Penn West's operating costs averaged \$4.28 per boe (6:1). Broken down by commodity, this was \$0.35 per mcf of natural gas production and \$7.68 per bbl of crude oil and liquids production.

Finding and development costs are a key determinant of a company's ability to grow profitably. Penn West has maintained profitability through the commodity price cycle by exercising control over finding and development costs. We have also worked to avoid escalation of costs during times of intense industry activity. Last year, Penn West's finding and development costs averaged \$5.91 per boe (6:1) of proven plus probable reserves added.

4 Finding and Onstream Costs (6:1)

	2000	1999	1998
Capital expenditures (\$millions, net)	541.9	760.0	249.0
Net proven reserve additions (mmboe)	80.1	126.7	53.0
Average cost (\$/boe)	6.76	6.00	4.70
Net proven and probable reserve additions (mmboe)	91.7	144.2	55.6
Average cost (\$/boe)	5.91	5.27	4.48

5 Reserve Values

	Reserves (Before royalties)		Before Tax Discounted Value of Estimated Future Net Revenue*			
	Oil and Liquids (mmbbls)	Natural Gas (bcf)	(\$ millions)			
			0%	10%	15%	20%
Proven producing	141.1	729.0	4,348	2,465	2,092	1,840
Proven non-producing	23.0	202.3	1,043	434	345	287
Total proven	164.1	931.3	5,391	2,899	2,437	2,127
Probable	32.2	147.5	1,088	281	200	153
December 31, 2000	196.3	1,078.8	6,479	3,180	2,637	2,280
December 31, 1999	149.4	994.0	3,715	1,824	1,477	1,251
December 31, 1998	64.7	772.0	2,020	1,038	841	709

* The estimate of future net production revenue was based on the price forecast outlined in Table 12, adjusted as required for transportation and quality differentials.

6 Oil and Liquids Reserves

(mmbbls, before royalties)

	2000	1999	1998
Proven producing	141.1	111.9	51.5
Proven non-producing	23.0	11.9	2.8
Total proven	164.1	123.8	54.3
Probable	32.2	25.6	10.4
Total	196.3	149.4	64.7
Reserve life index (years)	15.4	14.4	10.7

7 Natural Gas Reserves

(bcf, before royalties)

	2000	1999	1998
Proven producing	729.0	653.5	468.4
Proven non-producing	202.3	222.6	199.2
Total proven	931.3	876.1	667.6
Probable	147.5	117.9	104.4
Total	1,078.8	994.0	772.0
Reserve life index (years)	9.5	9.7	10.6

8 Reserve Additions

(before royalties)

	Oil and Liquids (mmbbls)			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1997	39.0	8.7	47.7	539.4	99.0	638.4
Discoveries and extensions	9.0	1.6	10.6	189.2	6.3	195.5
Acquisitions/dispositions	11.8	1.2	13.0	13.9	(0.9)	13.0
Production	(5.1)	–	(5.1)	(67.3)	–	(67.3)
Revisions of prior estimates	(0.4)	(1.1)	(1.5)	(7.6)	–	(7.6)
December 31, 1998	54.3	10.4	64.7	667.6	104.4	772.0
Discoveries and extensions	14.3	2.3	16.6	156.7	19.4	176.1
Acquisitions/dispositions	63.5	13.8	77.3	165.6	5.6	171.2
Production	(7.6)	–	(7.6)	(89.5)	–	(89.5)
Revisions of prior estimates	(0.7)	(0.9)	(1.6)	(24.3)	(11.5)	(35.8)
December 31, 1999	123.8	25.6	149.4	876.1	117.9	994.0
Discoveries and extensions	24.5	2.9	27.4	170.1	19.7	189.8
Acquisitions/dispositions	27.8	3.9	31.7	6.5	9.9	16.4
Production	(11.9)	–	(11.9)	(112.1)	–	(112.1)
Revisions of prior estimates	(0.1)	(0.2)	(0.3)	(9.3)	–	(9.3)
December 31, 2000	164.1	32.2	196.3	931.3	147.5	1,078.8

9 Price Forecast

	Oil	Oil	Oil	Natural Gas
	WTI (\$US/bbl)	Light Crude at Edmonton (\$Cdn/bbl)	Medium Crude at Hardisty (\$Cdn/bbl)	Alberta Average Field Price (\$Cdn/mmbtu)
2001	25.00	36.90	26.90	6.70
2002	23.00	32.80	25.80	5.10
2003	22.40	31.00	26.00	4.60
2004	22.30	29.90	24.90	4.05
2005	22.70	30.00	25.00	3.90
2006	23.20	30.70	25.70	3.95
2007	23.70	31.30	26.30	4.05
2008	24.20	32.00	27.00	4.15
2009	24.70	32.70	27.70	4.20
2010	25.20	33.30	28.30	4.30

10

Net Asset Value

(\$ millions at December 31, 2000, before tax)

	Discount Rate 10%	Discount Rate 15%
Reserves (proven plus probable)	3,180	2,637
Undeveloped land (at \$100/acre)	276	276
Proceeds from stock options	116	116
Bank loan and working capital	(593)	(593)
Net asset value	2,979	2,436
Shares and stock options outstanding at year-end (millions)	56.95	56.95
Net asset value per share	52.30	42.80

The Company's before tax net asset value per share has increased dramatically year over year. At a 10 percent discount rate, the net asset value per share increased by 91 percent from \$27.40 at the end of 1999 to \$52.30 per share at the end of 2000. This increase reflects several positive developments, including an increase in the Company's reserves, a reduction in outstanding debt, and a strengthening in the outlook for commodity prices. Compared with the outlook at the end of 1999, crude oil prices are now expected to be significantly stronger over the next three years while natural gas prices have strengthened dramatically over the entire forecast period. The commodity prices that were used in the evaluation are outlined in Table 12. Although the natural gas price forecast has increased over last year, the current forecast is still significantly lower than the pricing that can be realized on the forward commodity markets.

2001 Development Program

Penn West has budgeted to invest a total of \$500 million to \$600 million in 2001. This will fund drilling of a record 480 net wells and includes a budget of \$75 million for minor property acquisitions. Any major acquisitions would be in addition to this base budget. Our activities in 2001 will focus on shallow and medium depth natural gas drilling in the Northern Area, on a growing program to take advantage of our commanding light oil and natural gas position in the Central Area, and on continued shallow natural gas and conventional heavy oil drilling in the Plains Area.

Penn West's program is aimed at increasing daily average production to between 91,000 and 97,000 boe (6:1) per day in 2001, representing growth of between 9 and 16 percent over 2000. Of this total, approximately 61 percent will be natural gas production.

Natural Gas Marketing

In 2000, Penn West received an average price of \$4.70 per mcf, 83 percent higher than the \$2.57 per mcf realized in 1999. Approximately 76 percent of Penn West's natural gas sales are managed directly, an increase from last year, with the balance of natural gas sales managed by aggregator pools.

Penn West continues to pursue a diversified market portfolio with a significant weighting on sales to the Alberta markets, as these markets offer a premium netback relative to most other indices. In 2000, the Company had a strong exposure to Alberta markets which helped to optimize revenues. In addition to maximizing netbacks, the current portfolio approach also enhances the Company's operational flexibility to pursue higher netback opportunities as they become available.

Penn West's natural gas marketing principles include:

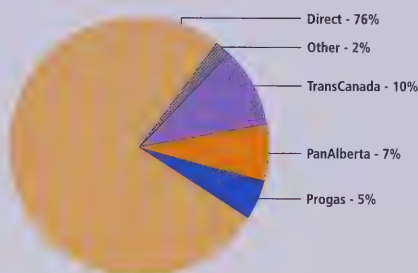
- 1) ensuring receipt transportation is balanced with supply;
- 2) de-contracting from aggregators wherever it makes economic sense;
- 3) pursuing low risk, high netback indices; and
- 4) maintaining revenue exposure to creditworthy counterparties.

Oil and Liquids Marketing

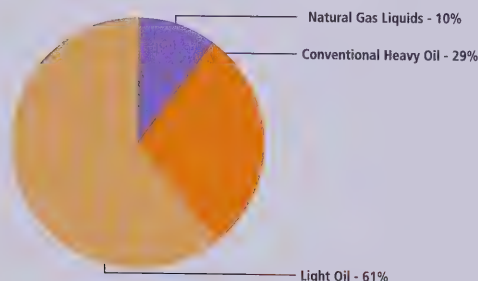
Penn West maintained its average crude oil quality at approximately 32° API. Just over 60 percent of the Company's liquids production can be attributed to light oil with an API of 38°. Conventional heavy oil at 18° API comprises approximately 29 percent of total liquids.

Penn West actively manages its heavy oil supply by finding opportunities to optimize netbacks through blending, trucking and

NATURAL GAS MARKETING PROGRAM
(2000 YEAR END)



2000 LIQUIDS SPLIT
(2000 YEAR END)



proprietary handling of emulsion. Blending costs are also controlled through use of proprietary condensate supply. As heavy oil demand increases throughout the spring and summer, heavy/light oil differentials are expected to narrow back to historical levels.

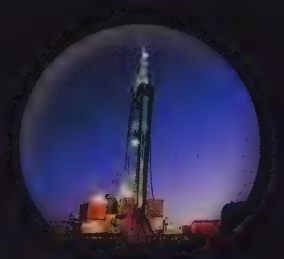
Further price support for world oil is expected through 2001 as OPEC continues to prove its commitment to balancing supply with demand. Penn West has no crude oil fixed pricing in place for 2001.

The Environment

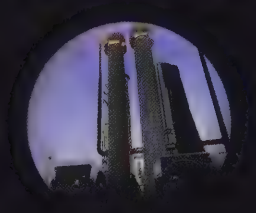
The petroleum industry is committed to minimizing the environmental impacts from oil and natural gas operations and involving all stakeholders throughout the process. Penn West fully understands its responsibilities in this important area and recognizes the interests of other land users in resource development areas, conducting its operations accordingly. Penn West's Environmental Policy and Environmental Management Plan (EMP) encompass the full range of air, water, soil and waste issues associated with exploration, development and production. The EMP includes guidelines to 11 key areas that must be considered in conjunction with oil and natural gas development plans. These guidelines help ensure safe and environmentally sound field operations. The Environmental Operating Guidelines (EOG) are used to train Penn West's employees in the practical and economical implementation of the EMP.

Penn West maintains a program of detailed inspections, audits and field assessments to determine and quantify the environmental liabilities that will be incurred during the eventual decommissioning and reclamation of its field facilities. Penn West pursues a program of environmental impact reduction aimed at minimizing these future corporate liabilities without hampering field productivity. This program, launched in 1994 and ongoing into 2001, includes measures to remediate potential contaminant sources, reclaim spill sites and abandon unproductive wells and shut-in facilities. In addition, Penn West has implemented strategies to reduce greenhouse gas emissions and flaring.

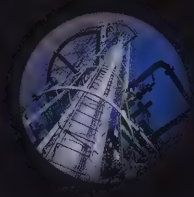
The oil and natural gas industry is subject to environmental regulations under provincial and federal legislation. This legislation provides for restrictions and prohibitions on releases or emission of various substances produced in association with oil and natural gas operations. In addition, the legislation requires that well and facility sites must be abandoned and reclaimed to the satisfaction of provincial criteria. Compliance with this legislation can require significant expenditures; a breach of such requirements could result in the imposition of material fines and facility closures. Penn West's environmental programs are monitored to ensure that they comply with all government environmental regulations and with the Company's own environmental policies. The results of these programs are reviewed with Penn West's management and operations personnel.



management's



discussion



and analysis



1

Penn West's cash flow is forecast to exceed the Company's capital budget in 2001. Does this suggest Penn West doesn't have enough opportunities to effectively deploy its available capital?

Not at all. The outlook for this year is exceptional for prices in both primary commodities. In such an environment, costs also tend to escalate, so it's important to resist spending money just because you have it. Instead, we will use our capital carefully, generating growth at reasonable cost. We will invest between \$500 and \$600 million in 2001, including record amounts on exploration and development. Reducing debt during a period of exceptionally strong cash flow positions us to take advantage of acquisition opportunities. As in 2000, our strong forecast cash flow in 2001 means that we can finance Penn West's growth without incurring additional debt.

2

What are Penn West's most important goals in 2001?

We will have an extremely active drilling program, building our natural gas production through the drill bit, particularly in our Northern Area, and exploiting the huge oil and natural gas potential in our Central Area. We will remain open to opportunities for cost effective acquisitions. As always, we will control unit costs and safeguard the integrity of our balance sheet.

3

Penn West has generated impressive returns to shareholders both in share price appreciation and in return on equity, which was almost 30 percent in 2000. Can shareholders expect this to continue?

The strategies used in the past by the Company to create shareholder value are still the cornerstones of Penn West's operations. The short-term outlook for commodity prices remains robust, providing the foundation for improved economies and returns for both natural gas and crude oil projects. In the long run, the ability to find, develop and exploit crude oil and natural gas reserves at reasonable cost will be the key determinant of value-creation. Penn West believes its business model provides a sound basis for continued profitable growth.

Penn West does not control the external market factors, including high commodity prices, low interest rates, and a relatively weak Canadian dollar that were all favourable throughout 2000. However, Penn West does control our reserve additions, production growth and cost structure. The Company's strong results provide the direct contribution to shareholder value that was accomplished by your Company in 2000. Proven and probable reserve additions replaced 301 percent of production, finding and onstream costs were below \$6.00 per boe, and production volumes were up by 35 percent year-over-year.

Penn West's strong successes in 2000 were due primarily to finding oil and natural gas reserves at reasonable cost and converting

reserves into cash in a timely manner through increased production volumes. Penn West's successes were supported by very favourable market conditions throughout 2000, including strong prices for crude oil and escalating prices for natural gas, as well as low interest rates and a weak though relatively stable Canadian dollar. The combined outcome was that Penn West created significant amounts of shareholder value in 2000.

In 2000, Penn West's balance sheet attained unprecedented strength. For the first time, the Company's cash flow exceeded capital requirements. Penn West did not issue new equity in 2000. The Company's ratio of debt plus working capital to trailing cash flow declined to 1.06:1 at year-end 2000.

11 Oil and Natural Gas Revenues

(\$000s) Years ended December 31

	2000	1999	1998
Oil and liquids	\$ 425,639	\$ 184,842	\$ 78,555
Natural gas	526,518	229,739	132,184
Total	\$ 952,157	\$ 414,581	\$ 210,739

Revenues from oil and liquids increased by 130 percent to \$426 million in 2000 from \$185 million in 1999. This increase is attributable to the combined impact of higher prices and production volumes. The Company's average liquids price rose

by 47 percent to \$35.83 per bbl in 2000 from \$24.37 per bbl in 1999, and the average daily production of oil and liquids increased by 56 percent to 32,462 bbls per day in 2000 from 20,779 bbls per day in 1999.

12 2000 Increases in Gross Revenues

(\$000s)

Gross revenues – 1999	\$ 414,581
Increase in oil and liquids production	104,720
Increase in oil and liquids price	136,077
Increase in natural gas production	58,041
Increase in natural gas price	238,738
Gross revenues – 2000	\$ 952,157

Revenues from natural gas increased by 129 percent in 2000 to \$527 million from \$230 million in 1999. This increase was due to a 25 percent increase in average natural gas production to 306 mmcf per day in 2000 from 245 mmcf per day in 1999, and an increase of 83 percent in the average natural gas price received by Penn West to \$4.70 per mcf in 2000 from \$2.57 per mcf in 1999.

In 2001, Penn West will continue to pursue a combination of opportunities for exploration and development of crude oil and natural gas reserves, and property acquisitions that meet the Company's economic criteria and provide added value within each of its five Core Areas.

13 Royalty Expenses

Years ended December 31

	2000	1999	1998
Royalties, net of Alberta Royalty Credit (\$000s)	\$ 207,338	\$ 70,707	\$ 27,160
Average cost (\$/boe, 6:1)	6.79	3.14	1.67
Percentage of gross revenues	22%	17%	13%

The average royalty rate Penn West incurred in 2000, net of the Alberta Royalty Credit, was 22 percent, an increase in rate of 5 percent from 1999. The rate increase reflects a higher oil and liquids royalty rate of 18 percent, up from 16 percent in

1999, and a natural gas royalty rate increase to 24 percent in 2000 from 18 percent in 1999. These rate increases reflect the price-sensitive nature of royalty rates in Western Canada.

14 Operating Expenses

Years ended December 31

	2000	1999	1998
Operating expenses (\$000s)	\$ 130,927	\$ 84,261	\$ 52,579
Average cost (\$/boe, 6:1)	4.28	3.75	3.23
Percentage increase (decrease) over previous year	14%	16%	(3%)
Percentage of gross revenues	14%	20%	25%

In 2000, operating expenses averaged \$4.28 per boe, a 14 percent increase from the average cost of \$3.75 per boe achieved in 1999. A significant portion of this increase reflects the higher costs incurred in the production of crude oil as compared to natural gas. The weighting of crude oil in the Company's production mix increased to 39 percent of total production in 2000 from 34 percent of total production in 1999.

On a unit of production basis, operating expenses for oil and liquids increased by 6 percent to \$7.68 per bbl in 2000 from \$7.22 per bbl in 1999. Operating costs for natural gas in 2000 were \$0.35 per mcf, an increase of 6 percent from \$0.33 per mcf in 1999. These increases reflect the higher cost of services experienced in the year.

15 Netbacks

Years ended December 31

	2000	1999	1998
Oil and liquids			
Production (bbls per day)	32,462	20,779	13,958
Price (\$/bbl)	\$ 35.83	\$ 24.37	\$ 15.42
Royalties, net (\$/bbl)	(6.61)	(3.86)	(2.22)
Operating expenses (\$/bbl)	(7.68)	(7.22)	(6.51)
Netback (\$/bbl)	\$ 21.54	\$ 13.29	\$ 6.69
Natural gas			
Production (mmcf per day)	306.2	245.1	184.0
Price (\$/mcf)	\$ 4.70	\$ 2.57	\$ 1.97
Royalties, net (\$/mcf)	(1.15)	(0.46)	(0.24)
Operating expenses (\$/mcf)	(0.35)	(0.33)	(0.29)
Netback (\$/mcf)	\$ 3.20	\$ 1.78	\$ 1.44

In 2000, Penn West received an average oil and liquids netback of \$21.54 per bbl and a natural gas netback of \$3.20 per mcf. These netbacks are

up by 62 percent and 80 percent, respectively, from \$13.29 per bbl and \$1.78 per mcf in 1999, primarily as a result of higher commodity prices.

16 General and Administrative Expenses

Years ended December 31

	2000	1999	1998
Gross expenses (\$000s)	\$ 19,426	\$ 13,986	\$ 11,516
Recovered expenses (\$000s)	(12,884)	(9,552)	(8,201)
Net Expenses (\$000s)	\$ 6,542	\$ 4,434	\$ 3,315
Gross general and administrative expenses			
Average cost (\$/boe, 6:1)	\$ 0.63	\$ 0.62	\$ 0.71
Percentage of gross revenues	2%	3%	5%
Net general and administrative expenses			
Average cost (\$/boe, 6:1)	\$ 0.21	\$ 0.20	\$ 0.20
Percentage of gross revenues	1%	1%	2%

Gross general and administrative expenses increased due to growth in staff levels to manage the Company's expanding asset base and production levels. Expressed on a unit of production basis, the gross general and administrative costs increased by 2 percent, to \$0.63 per boe in 2000 from \$0.62 per boe in 1999.

This low level of unit costs reflects Penn West's ability to control costs, exploit efficiencies and maintain corporate productivity during a period of significant growth. Net general and administrative expenses on a per unit basis increased slightly to \$0.21 per boe in 2000 from \$0.20 per boe in 1999.

17 Financing Expenses

Years ended December 31

	2000	1999	1998
Interest (\$000s)	\$ 42,586	\$ 21,423	\$ 12,595
Cash flow times interest coverage	14.2	11.8	10.0
Average cost (\$/boe, 6:1)	\$ 1.39	\$ 0.95	\$ 0.77
Percentage of gross revenues	4%	5%	6%

Interest expense for the year ended December 31, 2000 amounted to \$42.6 million, an increase of 99 percent from \$21.4 million in 1999. This

increase resulted from higher average debt levels and higher interest rates experienced in 2000 over 1999.

18 Depletion and Depreciation

(\$000s) Years ended December 31

	2000	1999	1998
Depletion and depreciation	\$ 146,689	\$ 84,030	\$ 52,428
Current site restoration provision	13,238	10,590	6,488
	\$ 159,927	\$ 94,620	\$ 58,916
Average cost (\$/boe, 6:1)	\$ 5.23	\$ 4.21	\$ 3.62
Percentage of gross revenues	17%	23%	28%

Depletion, depreciation and the site restoration provision increased by 69 percent to a total of \$159.9 million in 2000 from \$94.6 million in 1999. This was a direct result of increases in the Company's

production levels combined with an increase in the depletion rate. Average unit costs increased by 24 percent to \$5.23 per boe in 2000 from \$4.21 per boe in 1999.

19 Taxes

(\$000s) Years ended December 31

	2000	1999	1998
Future income taxes	\$ 177,630	\$ 57,703	\$ 21,506
Capital taxes	4,708	3,420	2,080
	\$ 182,338	\$ 61,123	\$ 23,586
Effective tax rate	45%	44%	42%

As outlined in note 5 to the financial statements and effective January 1, 2000, the Company retroactively adopted, without restatement, the liability method of accounting for income taxes. The provision for future income taxes increased by 208 percent to \$178 million in 2000 from \$58 million in 1999 as a result of the

191 percent higher income before income taxes and a one percent increase in the Company's effective tax rate, to 45 percent from 44 percent in 1999.

Capital taxes rose by 38 percent in 2000 to \$4.7 million from \$3.4 million in 1999 due to continuing growth in the Company's capital structure.

20 Tax Pools

(\$millions) Years ended December 31

	2000	1999	1998
Undepreciated capital cost (UCC)	\$ 333.2	\$ 256.7	\$ 155.1
Cumulative Canadian oil and gas property expense (COGPE)	644.3	540.1	174.0
Cumulative Canadian exploration expense (CEE)	1.9	66.9	33.3
Cumulative Canadian development expense (CDE)	95.7	86.7	53.5
Other	4.3	6.8	11.6
Total tax pools	\$ 1,079.4	\$ 957.2	\$ 427.5

Cash Flow and Net Income

Cash flow increased by 143 percent to \$560 million in 2000 from \$230 million in 1999. Basic net cash flow per share increased by 122 percent to \$10.86 in 2000, compared to \$4.89 in 1999.

Net income grew by 185 percent to \$222 million in 2000 from \$78 million in 1999. Basic net income per share rose by 160 percent in 2000 to \$4.31 from \$1.66 in 1999.

21 Items Affecting Cash Flow and Net Income

Years ended December 31

	2000		1999		1998	
	\$/boe	%	\$/boe	%	\$/boe	%
Oil and natural gas revenues	31.16	100.0	18.43	100.0	12.94	100.0
Net royalties	(6.79)	(21.8)	(3.14)	(17.0)	(1.67)	(12.9)
Operating expenses	(4.28)	(13.7)	(3.75)	(20.4)	(3.23)	(24.9)
Net operating income	20.09	64.5	11.54	62.6	8.04	62.2
General and administrative	(0.21)	(0.7)	(0.20)	(1.1)	(0.20)	(1.6)
Interest	(1.39)	(4.5)	(0.95)	(5.2)	(0.77)	(6.0)
Capital taxes	(0.15)	(0.5)	(0.15)	(0.8)	(0.13)	(1.0)
Cash flow from operations	18.34	58.8	10.24	55.5	6.94	53.6
Depletion and depreciation	(5.23)	(16.8)	(4.21)	(22.8)	(3.62)	(28.0)
Future income taxes	(5.81)	(18.6)	(2.56)	(13.9)	(1.32)	(10.2)
Net income	7.30	23.4	3.47	18.8	2.00	15.4

22 Capitalization

	2000		1999		1998	
	\$ millions	%	\$ millions	%	\$ millions	%
Common share equity						
at market - December 31	1,938	76.6	1,447	70.4	747	75.9
Long-term liabilities	590	23.3	596	29.0	250	25.4
Working capital						
deficiency (surplus)	2	0.1	12	0.6	(12)	(1.3)
Total	2,530	100.0	2,055	100.0	985	100.0

Liquidity and Capital Resources

Penn West's closing market price on The Toronto Stock Exchange was \$37.40 per share in 2000, \$28.25 per share in 1999 and \$16.50 per share in 1998. Market capitalization rose from \$747 million at year-end 1998, to \$1.4 billion in 1999 and to \$1.9 billion in 2000.

Penn West ended the year with higher reserves, increased production levels and lower debt levels compared to 1999. The Company's year-end debt plus working capital level of \$592 million is less than 1:1 on a trailing annual cash flow basis and represents only 9 months' cash flow using an annualized fourth quarter calculation.

Penn West has arranged an aggregate borrowing limit of \$775 million on its loan facility with a syndicate of Canadian chartered banks, on which the Company had drawn \$590 million at year-end 2000. This loan facility is subject to an

annual review by the lenders and requires no principal repayments provided that certain covenants with respect to tangible net-worth and cash flow coverage tests are met. Penn West has ample coverage under these tests.

Penn West will fund its 2001 planned capital spending program of \$500-600 million from its cash flow, estimated at \$690 million. The current budget calls for using a portion of the surplus to pay down a portion of long-term debt. The Company has sufficient capital to replace estimated 2001 production and to continue generating long term growth.

Business Risks

The Company's exploration, development, production and acquisition activities are conducted in the Western Canada Sedimentary Basin and involve a number of business risks. These risks include the uncertainty of replacing annual

production and finding new reserves on an economic basis, and the instability of commodity prices, foreign exchange rates and interest rates. To the extent practical, these risks are mitigated by the Company by employing highly trained and competent management and staff who manage these risks by:

- Balancing the production portfolio between oil and natural gas;
- Pursuing numerous investment opportunities, including:
 - Low risk development projects;
 - Moderate risk exploration plays; and
 - Strategic acquisitions; and
- Maintaining low finding and development, operating and general and administrative costs.

The Company's management team believes that these principles, validated through Penn West's eight-year track record of growth and profitability, position the Company strongly to continue on a track of sustained growth in production volumes and creation of shareholder value.

The oil and natural gas industry is subject to extensive government influence through royalty and taxation policies and environmental legislation. Royalty and taxation policy has remained stable within a reasonable operating environment, however there is always the potential for change.

The industry is also subject to extensive regulations imposed by governments related to the protection of the environment. Environmental legislation in Western Canada has undergone major revisions that have resulted in environmental standards and compliance becoming more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

Future Prospects

Focusing in its five Core Areas, Penn West believes it will be able to continue to generate economic prospects through exploration, exploitation and development. The Company's extensive undeveloped land base and existing high-quality, long-life reserves provide opportunities for low-risk growth in reserves and production for several years. The robust price environment for both crude oil and natural gas will contribute to strong cash flow generation and good investment returns, particularly with respect to lower-risk, early cash flow generation projects. In addition, the Company will remain alert to opportunities for cost-effective acquisitions that add value to its operations. Penn West expects to accomplish continuing growth in production, reserves and cash flow in 2001.

Forecast cash flow for 2001 of between \$660 and \$720 million represents an increase of 18 percent to 29 percent over 2000. The Company has hedged an average of 40 mmcf per day of natural gas for 2001 and has sold forward 25 mmcf per day of natural gas for 2002. Penn West's development projects in 2001 will be targeting both natural gas and crude oil prospects with approximately half of the forecast production volume growth coming from natural gas.

The results of operations and the forecast noted above are sensitive to changes in production, commodity prices, foreign exchange rates and interest rates. The following table summarizes those sensitivities:

23 Sensitivities

	Impact On 2001 Cash Flow	Impact On 2001 Net Income
Change of:		
Cdn \$1.00/bbl in oil price (\$000s)	\$ 11,000	\$ 6,100
Per common share	\$ 0.21	\$ 0.12
1,000 bbls/day in daily oil production (\$000s)	\$ 9,600	\$ 4,300
Per common share	\$ 0.18	\$ 0.08
\$0.10/mcf in natural gas price (\$000s)	\$ 9,100	\$ 5,000
Per common share	\$ 0.17	\$ 0.10
10,000 mcf/day in daily natural gas production (\$000s)	\$ 16,700	\$ 7,500
Per common share	\$ 0.32	\$ 0.14
\$0.01 in US\$/Cdn\$ exchange rate (\$000s)	\$ 16,400	\$ 9,100
Per common share	\$ 0.31	\$ 0.17
1% in prime interest rate (\$000s)	\$ 5,300	\$ 2,900
Per common share	\$ 0.10	\$ 0.06

m a n a g e m e n t ' s r e p o r t

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements.



Gerry J. Elms
Vice President, Finance and Corporate Secretary
March 20, 2001



William E. Andrew
President

a u d i t o r s ' r e p o r t

To the Shareholders of Penn West Petroleum Ltd.:

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Calgary, Alberta
March 20, 2001



Chartered Accountants

consolidated balance sheets

(\$000s)

December 31,	2000	1999
Assets		
Current		
Accounts receivable	\$ 140,348	\$ 68,381
Other	15,677	17,409
	156,025	85,790
Property, plant and equipment (Note 2)	1,845,096	1,420,994
	\$ 2,001,121	\$ 1,506,784

Liabilities and shareholders' equity

Current		
Accounts payable and accrued liabilities	\$ 158,281	\$ 97,492
Bank loan (Note 3)	590,355	596,373
Site restoration and abandonment	26,127	24,370
Future income taxes (Note 5)	371,746	153,274
	988,228	774,017
Shareholders' equity		
Share capital (Note 4)	448,940	440,141
Retained earnings	405,672	195,134
	854,612	635,275
	\$ 2,001,121	\$ 1,506,784

Approved on behalf of the Board:



Director



Director

c o n s o l i d a t e d s t a t e m e n t s o f i n c o m e a n d r e t a i n e d e a r n i n g s

(\$000s, except per share amounts)

Years ended December 31,	2000	1999
R e v e n u e s		
Oil and natural gas	\$ 952,157	\$ 414,581
Royalties	(207,338)	(70,707)
	744,819	343,874
E x p e n s e s		
Operating	130,927	84,261
General and administrative	6,542	4,434
Interest on long-term debt	42,586	21,423
Depletion and depreciation	159,927	94,620
	339,982	204,738
Income before taxes	404,837	139,136
T a x e s		
Future income taxes (Note 5)	177,630	57,703
Capital taxes	4,708	3,420
	182,338	61,123
Net income	222,499	78,013
Retained earnings, beginning of year	195,134	117,121
Change in accounting policy - future income taxes (Note 5)	(11,961)	-
Retained earnings, end of year	\$ 405,672	\$ 195,134
N e t i n c o m e p e r c o m m o n s h a r e (N o t e 6)		
Basic	\$ 4.31	\$ 1.66
Diluted	\$ 4.16	\$ 1.60

c o n s o l i d a t e d s t a t e m e n t s o f c a s h f l o w

(\$000s, except per share amounts)

Years ended December 31,	2000	1999
Operating activities		
Net income	\$ 222,499	\$ 78,013
Depletion and depreciation	159,927	94,620
Future income taxes	177,630	57,703
Funds flow from operations	560,056	230,336
(Increase) decrease in non-cash working capital (Note 9)	(5,151)	2,182
	554,905	232,518
Investing activities		
Additions to property, plant and equipment	(550,309)	(764,476)
Expenditures on abandonments	(11,470)	(2,917)
Proceeds on sales of property, plant and equipment	8,388	4,515
(Increase) decrease in non-cash working capital (Note 9)	(4,055)	21,921
Cash flow used in investing activities	(557,446)	(740,957)
Financing activities		
(Decrease) increase in bank loan	(6,018)	346,564
Issue of common shares	8,799	168,470
Share issue costs	-	(6,595)
Increase in non-cash working capital (Note 9)	(240)	-
Cash flow from financing activities	2,541	508,439
Increase in cash	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -
Cash flow per common share (Note 6)		
Basic	\$ 10.86	\$ 4.89
Diluted	\$ 10.46	\$ 4.73

December 31, 2000 and 1999

(all tabular amounts in \$000s, except per share amounts)

1. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) Principles of consolidation

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and its wholly owned subsidiaries and partnership.

b) Cash and cash equivalents

Cash and cash equivalents include cash in the bank less outstanding cheques and deposits with a maturity of less than one year.

c) Other current assets

Other current assets include deposits, prepayments and inventory valued at the lower of cost and net realizable value.

d) Property, plant and equipment

i) Capitalized costs

The full cost method of accounting for oil and natural gas operations is followed whereby all costs of acquiring, exploring and developing oil and natural gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related equipment costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

ii) Depletion and depreciation

Depletion and depreciation of resource properties are calculated using the unit-of-production method based on production volumes before royalties in relation to total proven reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes estimated salvage values and the cost of unevaluated property. Significant processing facilities, net of estimated salvage, are depreciated based on the estimated useful lives of the facilities.

iii) Ceiling test

The carrying amount of property, plant and equipment, net of recorded future income taxes and site restoration and abandonment costs, is limited to the sum of estimated future net cash flows from proven reserves and the cost, less impairment, of undeveloped properties. Estimated future capital costs, production-related general and administrative expenses, interest expenses, and applicable income taxes are deducted in determining estimated future net cash flows from proven reserves.

iv) Future site restoration and abandonment costs

A provision has been made for estimated future site restoration and abandonment costs calculated on the unit-of-production method. The 2000 provision of \$13.2 million (1999 – \$10.6 million) is included in depletion and depreciation expense.

The estimates in ii) and iii) and iv) are based on sales prices, costs and regulations in effect at the end of the year.

1. Summary of significant accounting policies (continued)

e) Joint ventures

Many of the Company's exploration and development activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

f) Hedging activities

The Company uses forward contracts to hedge exposure to commodity price, foreign exchange and interest rate fluctuations. Gains and losses on oil and natural gas and foreign exchange transactions are reported as adjustments to oil and natural gas revenue when the related production is sold. Gains or losses on interest rate hedging transactions are reported as adjustments to interest on long-term debt.

g) Foreign currency translation

Amounts denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Gains or losses are included in net income, except those related to long-term debt on which the gains or losses are deferred and amortized over the life of the debt.

h) Stock options

The Company has a stock option plan as described in Note 4 c). Consideration from exercised stock options, comprising the number of options times the exercise price, is added to share capital.

2. Property, plant and equipment

December 31,	2000	1999
Oil and natural gas properties, and production and processing equipment	\$ 2,312,569	\$ 1,744,544
Other	7,853	5,076
	2,320,422	1,749,620
Accumulated depletion and depreciation	(475,326)	(328,626)
Net book value	\$ 1,845,096	\$ 1,420,994

During the year ended December 31, 2000, no overhead expenses were capitalized (1999 – \$2.3 million). The cost of unevaluated property excluded from the depletion base as at December 31, 2000 was \$148.0 million (1999 – \$123.8 million).

3. Bank loan

December 31,	2000	1999
Bankers' acceptances	\$ 590,355	\$ 596,373

The Company has a credit facility arranged with a syndicate of Canadian chartered banks which is unsecured and bears interest at the prime rate or bankers' acceptance rates plus a stamping fee which varies between 50 and 100 basis points, depending on the Company's debt-to-cash flow ratio. The maximum borrowing under the facility is \$775 million comprising a \$700 million credit facility and a \$75 million operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment not to exceed five years. As at December 31, 2000, the Company had \$21.8 million of cheques issued in excess of cash on hand, included in accounts payable, which reduced the amount otherwise available to be drawn on the credit facility.

4. Share capital

a) Authorized

- i) Unlimited number of preferred shares issuable in one or more series.
- ii) Unlimited number of voting common shares without nominal or par value.

b) Issued

Common shares	Number	Consideration
Balance, December 31, 1998	45,278,320	\$ 275,324
Issued for cash	5,000,000	159,500
Issued on exercise of stock options	898,650	7,809
Issued to employee stock savings plan	45,228	1,161
Share issue expenses, net of future income taxes of \$2,942	–	(3,653)
Balance, December 31, 1999	51,222,198	\$ 440,141
Issued on exercise of stock options	548,960	7,120
Issued to employee stock savings plan	47,224	1,679
Balance, December 31, 2000	51,818,382	\$ 448,940

c) Stock options

The Company has a stock option plan (the "Plan") for the benefit of its employees and directors. Options under the Plan vest over a five year period and, if unexercised, expire six years from the date of grant. Total stock option activity relating to the stock option plan was as follows:

	Shares	Weighted-average exercise price
Balance, December 31, 1998	3,335,875	\$ 11.87
Granted	2,133,000	\$ 24.01
Exercised	(898,650)	\$ 8.69
Cancelled	(241,400)	\$ 19.19
Balance, December 31, 1999	4,328,825	\$ 18.11
Granted	1,610,500	\$ 32.15
Exercised	(548,960)	\$ 12.97
Cancelled	(263,650)	\$ 27.24
Balance, December 31, 2000	5,126,715	\$ 22.60

As of December 31, 2000, options to purchase 986,415 (1999 - 511,775) shares were exercisable. As of December 31, 2000, there were 4,838,840 common shares reserved for future issuance. Subsequent to year-end the directors passed a resolution, subject to shareholder approval, to increase the number of common shares reserved for future issuance to approximately 10 percent of common shares outstanding. The table on the following page summarizes information about stock options outstanding at December 31, 2000:

Range of exercise prices	Outstanding as of December 31, 2000	Weighted- average remaining contractual life	Weighted- average exercise price	Exercisable as of December 31, 2000	Weighted- average exercise price
\$ 6.40 - \$ 9.60	287,100	1.0	\$ 7.79	173,850	\$ 7.81
\$ 9.61 - \$14.40	587,715	2.1	\$ 13.80	239,315	\$ 13.74
\$14.41 - \$21.60	1,830,250	3.6	\$ 16.74	403,250	\$ 16.32
\$21.61 - \$32.40	2,240,150	5.0	\$ 30.69	170,000	\$ 29.10
\$32.41 - \$35.15	181,500	5.6	\$ 33.82	-	\$ -
	<u>5,126,715</u>		\$ 22.60	<u>986,415</u>	\$ 16.40

5. Income taxes

Effective January 1, 2000, the Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Subsequent to the date of adoption, future income taxes will be computed on temporary differences using income tax rates that are expected to apply when future income tax assets and liabilities are realized or settled. Future income tax liabilities result from differences between the book value and tax basis of property, plant and equipment. These liabilities are offset against future tax assets that arise from differences between the book value and tax basis of site restoration and abandonment and share issue costs. The new method was applied retroactively without restatement of prior year financial statements. As a result of these changes, future income taxes and property, plant and equipment increased by \$40.8 million and \$28.9 million respectively and retained earnings decreased by \$11.9 million.

The provision for income taxes reflects an effective income tax rate that differs from combined federal and provincial statutory tax rates as follows:

Years ended December 31,	2000	1999
Income before taxes	\$ 404,837	\$ 139,136
Corporate income tax rate	44.6%	44.6%
Computed income tax provision	\$ 180,557	\$ 62,055
Increase (decrease) resulting from:		
Non-deductible Crown payments, net	80,588	28,450
Non-deductible depletion	-	2,088
Resource allowance	(83,534)	(34,724)
Other	19	(166)
Future income taxes	\$ 177,630	\$ 57,703

As at December 31, 2000, future income taxes arise from temporary differences as follows:

	Future tax asset (liability)
Property, plant and equipment	\$ (381,821)
Site restoration and abandonment	8,622
Share capital	1,453
	<u>\$ (371,746)</u>

6. Net income and cash flow per common share

In the fourth quarter of 2000, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants for the computation of earnings per share. Prior period net income and cash flow per share amounts have been restated for the change to the treasury stock method from the imputed earnings method. The treasury stock method uses company share prices for determining the dilutive effect of in-the-money stock options. The impact on prior period net income and cash flow per share amounts is not significant.

Cash flow amounts are calculated by adding depletion and depreciation and future income taxes to net income.

Years ended December 31,	2000	1999
Weighted average number of common shares outstanding		
Basic	51,591,370	47,110,353
Diluted	53,518,671	48,651,224

7. Financial instruments

The Company's financial instruments, included in the balance sheets, are comprised of accounts receivable, current liabilities and the bank loan. The fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments and the market rate of interest applied to the bank loan.

All of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risk. The Company uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, foreign exchange and interest rates. The Company had the following financial hedging positions outstanding at December 31, 2000:

Exposure	Position hedged	Pricing	Term	Market value of contracts at year-end*
Commodities:				
AECO Natural Gas				
Costless Collars	10,000 GJ per day	\$2.50 - \$3.73/GJ	Calendar 2001	\$ (19,624)
AECO Natural Gas				
Costless Collars	10,000 GJ per day	\$2.50 - \$3.73/GJ	January 2002 to October 2002	\$ (7,795)
Foreign Exchange:				
U.S. Dollar Forward Sale	\$US 1 million per month	\$1.3826	January 2001 to December 2001	\$ (1,355)

* Unrealized gain (loss) based on posted rates for similar contracts at the balance sheet date.

8. Related party transactions

The Company incurred \$nil (1999 – \$1,797,000) for underwriting fees and commissions to a firm with directors who are also directors of the Company.

9. Cash flows

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

Years ended December 31,	2000	1999
Accounts receivable	\$ (71,967)	\$ (32,253)
Other	1,732	(5,143)
Accounts payable and accrued liabilities	60,789	61,499
	<u>\$ (9,446)</u>	<u>\$ 24,103</u>
Operating activities	(5,151)	2,182
Investing activities	(4,055)	21,921
Financing activities	(240)	-
	<u>\$ (9,446)</u>	<u>\$ 24,103</u>

Amounts actually paid during the year related to interest expense and capital taxes were as follows:

Years ended December 31,	2000	1999
Interest paid	\$ 41,809	\$ 20,321
Capital taxes paid	\$ 5,526	\$ 2,077

SUMMARY INFORMATION - FIVE YEAR SUMMARY

Years ended December 31,	2000	1999	1998	1997	1996
Financial					
(\$000s, except per share amounts)					
Gross revenues	952,157	414,581	210,739	217,559	173,773
Cash flow	560,056	230,336	113,010	122,899	90,051
Basic per share	10.86	4.89	2.73	3.09	2.51
Diluted per share	10.46	4.73	2.65	2.95	2.42
Net income	222,499	78,013	32,588	37,216	23,839
Basic per share	4.31	1.66	0.79	0.94	0.66
Diluted per share	4.16	1.60	0.77	0.89	0.64
Capital expenditures	541,921	759,961	248,980	179,386	101,848
Total assets	2,001,121	1,506,784	793,457	584,779	464,705
Bank indebtedness	590,355	596,373	249,809	169,468	134,880
Shareholders' equity	854,612	635,275	392,445	274,026	231,977
Common shares outstanding at year-end (000s):					
Basic	51,818	51,222	45,278	40,004	39,283
Diluted	56,945	55,551	48,614	43,553	42,726
Market value per common share – High	41.50	34.50	20.50	20.20	14.50
(\$/share) – Low	28.25	14.60	12.75	13.35	6.75
– Close	37.40	28.25	16.50	15.45	14.00
Operating					
Production					
Oil and liquids production (bbls per day)	32,462	20,779	13,958	12,604	11,483
Oil and liquids price (\$/bbl)	35.83	24.37	15.42	21.71	21.80
Natural gas production (mmcf per day)	306.2	245.1	184.0	164.8	129.0
Natural gas price (\$/mcf)	4.70	2.57	1.97	1.96	1.74
Reserves (proven and probable)					
Oil and liquids (mmbbls)	196.3	149.4	64.7	47.7	40.4
Natural gas (bcf)	1,078.8	994.0	772.0	638.4	515.0
Wells drilled (gross)					
Natural gas	228	139	105	71	42
Oil	129	44	23	69	63
Dry	48	27	28	22	16
Total wells drilled	405	210	156	162	121
Undeveloped land holdings					
Western Canada (000s of acres)					
Gross	3,030	2,583	2,027	1,856	1,535
Net	2,763	2,280	1,735	1,563	1,318
Average working interest (%)	91	88	86	84	86

25 QUARTERLY FINANCIAL SUMMARY

	2000				1999			
Three months ended,	Mar 31	Jun 30	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30	Dec 31
Financial								
(\$000s, except per share amounts)								
Gross revenues	167,206	212,257	251,500	321,193	61,665	73,871	123,397	155,648
Cash flow	93,855	122,212	147,499	196,490	32,321	40,234	71,147	86,634
Basic per share	1.83	2.37	2.85	3.81	0.71	0.88	1.55	1.75
Diluted per share	1.77	2.27	2.75	3.67	0.70	0.85	1.48	1.64
Net income	32,282	44,854	57,749	87,614	9,077	12,771	26,565	29,600
Basic per share	0.63	0.87	1.12	1.69	0.20	0.28	0.58	0.60
Diluted per share	0.61	0.83	1.08	1.64	0.20	0.27	0.55	0.56
Operating								
Oil and liquids production								
(bbls per day)	30,200	31,499	32,910	35,203	15,708	15,238	23,730	28,270
Oil and liquids price								
(\$/bbl)	35.11	34.00	37.59	36.39	14.13	20.74	26.88	29.77
Natural gas production								
(mmcf per day)	270.7	327.4	316.1	310.3	205.0	228.6	263.0	282.6
Natural gas price								
(\$/mcf)	2.87	3.85	4.74	7.12	2.26	2.17	2.67	3.01

CONVERSIONS OF UNITS

Imperial	Metric
1 ton	.907 tonnes
1.102 tons	1 tonne
1 acre	.40 hectares
2.5 acres	1 hectare
1 bbl	.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
.035 mcf	1 cubic metre
1 mile	1.61 kilometres
.62 miles	1 kilometre

Unless otherwise stated, all financial sums are stated in Canadian dollars.

ABBREVIATIONS

bbl	barrel (oil)
mmbbls	million barrels
bbls per day	barrels per day
boe	barrels of oil equivalent (based on 6 mcf of natural gas equals one barrel of oil)
mmboe	million barrels of oil equivalent
mmbtu	million British Thermal Units
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet
mmcf per day	million cubic feet per day
GJ	gigajoule
bcf	billion cubic feet
API	American Petroleum Institute
TSE	The Toronto Stock Exchange
NYMEX	New York Mercantile Exchange
WTI	West Texas Intermediate Crude Oil
tcf	trillion cubic feet

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